



Consumer Education Literature

FAQ on Income Recognition, Asset Classification and Provisioning (IRACP) Norms for Advances

1. What is the meaning of the term 'Dues'?

The term 'Dues' mean, the principal/interest/any charges levied on the loan account which are payable within the period stipulated as per the terms of sanction of the credit facility.

2. What is the meaning of the term 'Overdues'?

'Overdues' mean the principal / interest/ any charges levied on the loan account or any credit facility which are payable, but have not been paid on or before the due date fixed by the bank as per the terms of sanction of the credit facility.

3. What is a Stressed Account ?

Borrowers are required to pay the EMI/ Instalment/ Interest at periodic intervals as per terms agreed before availing of the loan. In case such EMI/ Instalments/ Interest dues are not paid on or before the due date on agreed tems, such account is called as a 'stressed account'.

4. What is a Special Mention Account (SMA) ?

A Loan account showing symptoms of stress as evidenced by a default in payment of dues will be classified as 'Special Mention Account (SMA). Such accounts if not regularized within 90 days gets classified as 'Non Performing Asset(NPA)'.

5. How Special Mention Accounts (SMAs) are classified ?

SMAs are classified as under:

Loans other than revolving facilities		Loans in the nature of revolving facilities like Cash Credit/ Overdraft	
SMA Sub-categories	Basis for classification – Principal or interest payment or any other amount wholly or partly overdue between	SMA Sub-categories	Basis for classification- Outstanding balance remains continuously in excess of Sanctioned limit or Drawing power, whichever is lower, for a period of:
SMA-0	Upto 30 days	-	-
SMA-1	More than 30 days and upto 60 days	SMA-1	More than 30 days and upto 60 days
SMA-2	More than 60 days and upto 90 days	SMA-2	More than 60 days and upto 90 days.

The date of SMA/NPA shall reflect the asset classification status of an account at the day-end of that calendar date.



SMA classification is applicable to all loans (except agricultural advances governed by crop season based asset classification norms) including retail loans irrespective of size.

6. What is a Non-Performing Asset ?

A 'Non-Performing Asset' (NPA) is a loan or an advance which ceases to generate income for the bank.

A Non-performing asset (NPA) is a loan or an advance where;

1. interest and/ or instalment of principal remains overdue for a period of more than 90 days in respect of a term loan,
2. the account remains 'out of order', in respect of an Overdraft/Cash Credit (OD/CC),
3. the bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted,
4. Agricultural Loans: The instalment of principal or interest thereon remains overdue for two crop seasons for short duration crops, and, the instalment of principal or interest thereon remains overdue for one crop season for long duration crops,
5. in respect of derivative transactions, the overdue receivables representing positive mark- to-market value of a derivative contract, if these remain unpaid for a period of 90 days from the specified due date for payment.

7. What is an 'Out of Order' status in a Cash Credit/ Overdraft account?

A Cash Credit/ Overdraft Account shall be treated as 'out of order' if:

- i) the outstanding balance in the CC/OD account remains continuously in excess of the sanctioned limit/drawing power for 90 days, or
- ii) the outstanding balance in the CC/OD account is less than the sanctioned limit/drawing power but there are no credits continuously for 90 days, or the outstanding balance in the CC/OD account is less than the sanctioned limit/drawing power but credits are not enough to cover the interest debited during the 'previous 90 days period'. ('Previous 90 days period' shall be inclusive of the day for which the day-end process is being run by the bank.)



8. Give Examples for classification of a loan / credit facility as SMA-0, SMA-1, SMA-2 and NPA:

Example: If due date of a loan account is March 31, 2022, and full dues are not received before the bank runs the day-end process for this date, the date of overdue shall be March 31, 2022 and the account will be classified as SMA-0 as on 31.03.2022. If it continues to remain overdue, then this account shall get tagged as SMA-1 upon running day-end process on April 30, 2022 i.e. upon completion of 30 days of being continuously overdue. Similarly, if the account continues to remain overdue, it shall get tagged as SMA-2 upon running day-end process on May 30, 2022 and if continues to remain overdue further, it shall get classified as NPA upon running day-end process on June 29, 2022.

9. What are the various other scenarios where a loan account/ advance is classified as NPA?

In addition to what is mentioned in point no. 6 above, an account may also be classified as NPA in terms of certain specific provisions of the RBI Master Circular.

- **Renewal pending :**

Regular and adhoc credit limits need to be reviewed/regularised not later than three months from the due date/date of ad hoc sanction. An account where the regular/ ad hoc credit limits have not been reviewed/ renewed within 90 days from the due date/ date of ad hoc sanction will be treated as NPA.

- **Non-Submission of Stock & Book Debt Statement :**

A working capital borrowal account is sanctioned against hypothecation of stock & book debts, the borrower has to submit the stock and book debt statements periodically to facilitate the bank to determine Drawing Power calculated under the account.

The outstanding in the account based on the Drawing Power calculated from stock & Book debts statements older than three months would be deemed as 'irregular'. If such irregularity exists for a continuous period of 90 days, the account will be classified as NPA.

10. At what periodicity the banks undertake the classification of accounts as SMA or NPA ?

Bank undertakes the process of classification of accounts as SMA/NPA on daily basis during the Day-end process.

11. Whether all loan accounts of the borrower is classified as NPA if one of his loan accounts turn NPA ?

Yes, NPA classification is borrower wise and not account wise. Hence, if one loan account of the borrower is classified as NPA, all other loan accounts of the borrower will also be classified as NPA.



12. Whether amount paid/ deposited during the day is considered during the NPA marking process ?

Credits received before the day-end-process are considered for calculation of delinquency at the time of undertaking the Asset Classification process. Any credit received subsequently are treated as receipts for the subsequent day.

13.How borrower accounts are upgraded to regular status after being classified as NPA ?

A Loan account classified as NPA will be upgraded to 'Standard' asset only if the entire arrears of interest and principal pertaining to all the credit facilities are paid by the borrower. Also, any other pending irregularities like review/renewal of account and submission of stock statements, need to be rectified for upgradation.

14.What is the impact on the borrower if account is slipped to Stress/NPA?

As per the regulatory guidelines, Bank has to report Stress/Default/NPA to Central Repository Information of Large Credit (CRILC), Credit Information Companies (CICs) etc. from time to time which impact the credit history of the borrowers and attendant repercussions. Further, recovery action including legal action would be initiated by Bank.

(Note: It is to be noted that the contents of consumer education as stated above is illustrative in nature and as such, the IRACP norms and clarifications provided by RBI will prevail for implementation from time to time.)